



BANK OF PAPUA NEW GUINEA

MONTHLY ECONOMIC REVIEW

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Month Ended
March 2020

Economic Activity

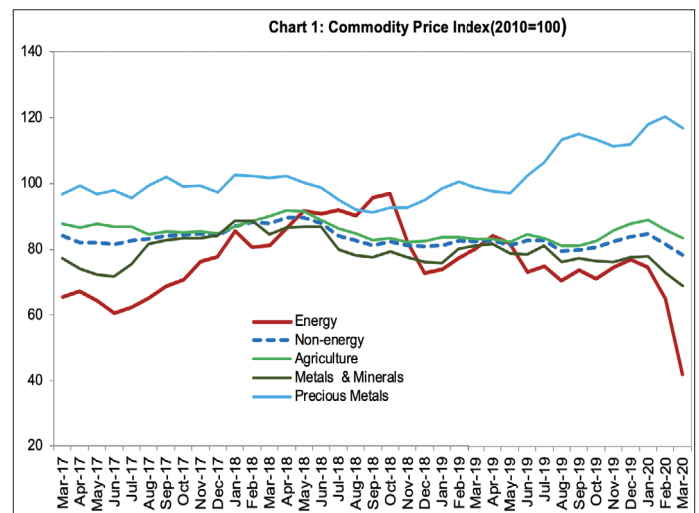
The global economic activity slowed down dramatically amid the spread and impact of the COVID-19 pandemic, as countries closed their borders as part of the containment measures, and business operations were scaled down or shut down as a result. These measure have resulted in disruptions to production and supply chains, international trade and investment, combined with a plunge in commodity and capital markets. In the US, economic activity contracted sharply as labour market collapsed due to massive job losses in almost all sectors. In the euro area, economic activity deteriorated reflecting disruption in supply chains and sharp fall in aggregate demand as well as with increased unemployment. In the UK, economic activity declined, but at a slower pace, compared to the other European economies where more stringent lockdown measures were imposed. In Japan, the impact of the pandemic severely affected the export market resulting in lower production and suppressing consumer demand. Among the emerging market economies, China's economy remained depressed, however activity in the manufacturing sector picked up reflecting the continued improvement in the containment of COVID-19. In India, economic activity contracted due to a fall in production, export and domestic demand. Economic activity fell across the rest of the advanced, emerging market, and developing economies and the magnitude of the pandemic impact is linked to the severity of containment measures enforced in each country. During the month of March, most Central Banks have implemented monetary stimulus and liquidity facilities to reduce systematic financial stress.

In the domestic economy, the Government enforced a two-week lockdown from 23rd March 2020 followed by the national State of Emergency (SOE) immediately thereafter on the 6th April 2020 to contained the threat of the COVID-19 virus. The introduction of SOE also assisted the healthcare system to prepare for any outbreak. The containment measures from the SOE has resulted in loss of business activity in all sectors of the economy, but mainly trade, transport, tourism and hospitality, manufacturing and construction sectors.

Commodity Prices

International commodity price data published by the World Bank show a significant decline across all major commodity price indices in March 2020. The energy price index significantly dropped by 35.33 percent, resulting mainly from a plunge in the crude oil prices by 39.6 percent to

US\$32.20 per barrel from US\$53.35 per barrel in February. This outcome was due to the impact of the COVID-19 pandemic, reflecting the sharp fall in market demand for crude oil coupled with limited storage space in the global market resulting in excess supply. The non-energy price index declined by 3.7 percent, reflecting declines in agriculture and, metals and minerals price indices by 3.11 percent and 5.9 percent, respectively. The precious metals price index, which comprises of gold, silver and platinum decreased by 2.96 percent attributed to price declines in all these metals (Chart 1), though the price of gold is at historical high level as it is considered a safe-haven investment asset. The international prices for most of PNG's major export commodities declined, except for liquefied natural gas, coffee and logs.

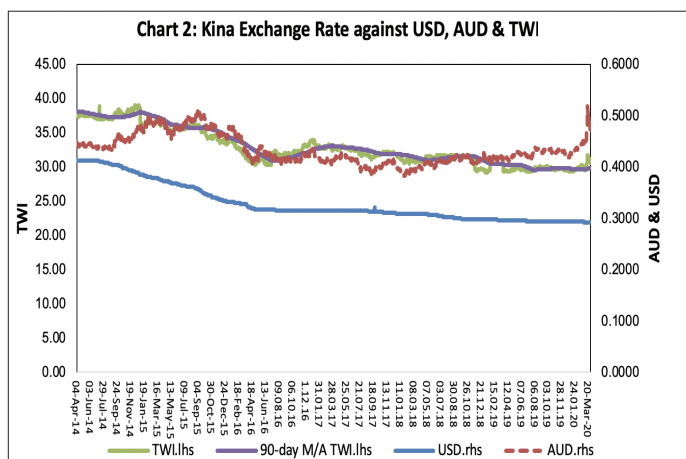


Source: World Bank

Exchange Rate

The average monthly kina exchange rate depreciated against the US dollar (USD) by 0.37 percent to US0.2924 as at the end of March 2020, compared to US0.2935 in February 2020. The kina appreciated against the Australian dollar (AUD) by 6.8 percent to A\$0.4698. High import orders and other demand for the US dollar continued to exert downward pressure on the kina exchange rate against the USD. The Central Bank continue to intervene to supply the foreign exchange market to help meet the demand for foreign currency. The appreciation of the kina against the AUD reflected cross-currency movements as the AUD depreciated against the USD. The USD and Japanese yen appreciated against other major trading currencies amidst the global outbreak of COVID-19 in China, as investors sought alternative investment opportunities. The

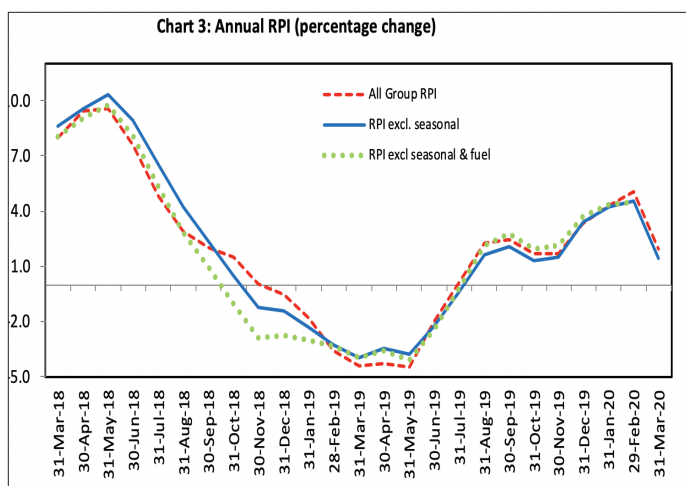
average monthly TWI increased by 1.57 percent to 30.44 over the month of March 2020, compared to the previous month (Chart 2).



Source: World Bank

Inflation

Annual headline Retail Price Index (RPI) to March 2020 increased by 2.0 percent. This increase was driven by price increases in ‘Alcoholic beverages, tobacco and betelnut’ and ‘Food and non-alcoholic beverages’. Higher prices of betelnut, tobacco and alcoholic drinks caused price increases in the ‘Alcoholic beverages, tobacco and betelnut’ expenditure group, while an increase in the ‘Fruits and vegetables’, ‘meat’ and ‘dairy products, eggs and cheese’ subgroups contributed to the increase in the ‘Food and non-alcoholic beverages’ expenditure group. The ‘Transport’ expenditure group also increase by 2.6 percent. Annual RPI ex-seasonal and RPI ex-seasonal plus petrol and fuel increased by 1.4 percent and 1.5 percent respectively (Chart 3). The quarterly headline RPI declined by 1.0 percent, while the monthly headline RPI declined by 1.5 percent.

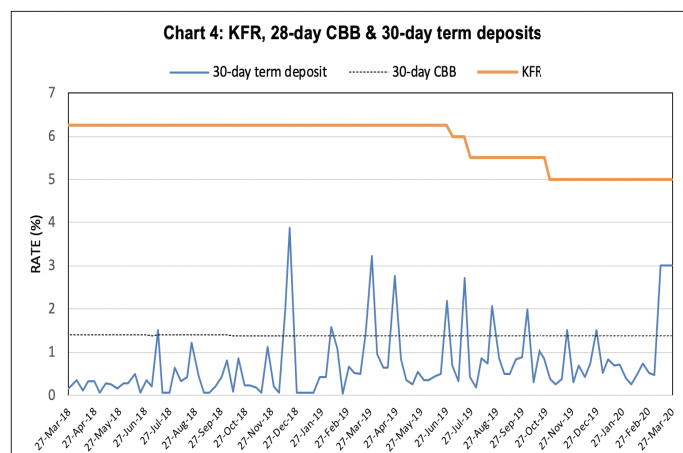


Source: Bank of PNG

Domestic Interest Rates & Monetary Aggregates

Over the month to 27th March 2020, the Central Bank Bill (CBB) rates for the 28-day term remained unchanged at 1.39 percent, while the 91-day term decreased by 0.02 percent to 2.48 percent, compared to the previous month of February 2020. Over the same period, the Treasury bill

(T-bill) rates for the 273-day and 364-day terms remained unchanged at 6.04 percent and 7.12 percent, respectively, while the 182-day term decreased by 0.01 percent to 4.69 percent, compared to 4.70 percent in the previous month. Other terms not reported for both CBBs and T-bills were not offered. The weighted average interest rates on wholesale deposits (K500,000 and above), generally increased over the month of March 2020. The rate for the 60-day term decreased by 0.11 percent to 2.65 percent, while the rates for the 30-day, 90-day, 180-day, 273-day and 364-day terms increased by 2.47 percent, 1.11 percent, 0.44 percent, 1.30 percent and 0.44 percent, respectively, to 3.00 percent, 2.56 percent, 2.72 percent, 1.50 percent and 2.59 percent (Chart 4).



Source: Bank of PNG

The broad money supply increased by 1.6 percent over the year to March 2020, compared to a decline of 6.5 percent in the corresponding period of 2019. The movement in broad money supply reflected increases in net claims on Central Government. Monetary base decreased by 1.3 percent in March 2020, compared to a decrease of 1.2 percent in the corresponding period of 2019. The decrease was due to a fall in currency in circulation which was attributed to the impact of COVID-19 pandemic measures that resulted in lower economic activity.

Commercial bank lending to public non-financial corporations, other financial corporations and other resident sectors increased by K445.2 million to K13,908.5 million from end of March 2019 to week-ending 27th March 2020. The advances were mainly to the mining and construction sectors. Over the year, the average weekly lending by banks increased by 3.2 percent to K13,598.8 million. The commercial bank deposits increased by K657.1 million to K20,790.4 million from end of March 2019 and week-ending 27th March 2020, which mainly reflected placements by the mining, finance, retail and government sectors. The weekly average deposits declined by 1.7 percent to K20,382.4 million over the same period.

Monetary Policy

The Bank eased its monetary policy stance by reducing its policy signalling rate, the Kina Facility Rate (KFR) by 200 basis points to 3.00 percent in March 2020. In addi-

tion, the Bank also lowered the Cash Reserve Requirement (CRR) from 10.0 percent to 7.0 percent and introduced the Quantitative Easing program to buy back CBBs and government securities as measures to provide more

liquidity to the banking system and other holders. The Bank implemented these policy measures to stimulate economic activity in response to the adverse effects of the threat of COVID-19 on the economy.

Papua New Guinea Key Economic Indicators		Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
1. Consumer Price Index (CPI)	Headline	4.5	-	-	4.0	-	-	3.3	-	-	-	-	-	-
	Food	3.4	-	-	3.3	-	-	3.0	-	-	-	-	-	-
	Underlying	4.5	-	-	3.0	-	-	2.1	-	-	-	-	-	-
2. Retail Price Index (RPI) (YOY % Change)	Headline	-4.4	-4.3	-4.5	-2.0	0.1	2.2	2.4	1.7	1.7	2.7	4.3	5.1	2.0
	Ex-seasonal	-4.0	-3.5	-3.8	-2.3	-0.4	1.6	2.1	1.3	1.5	3.4	4.3	4.6	1.4
3. Exchange Rates (mid-rate, eop*)	USD	0.2965	0.2960	0.2955	0.2945	0.2945	0.2940	0.2940	0.2940	0.2940	0.2935	0.2935	0.2935	0.2920
	AUD	0.4180	0.4207	0.4273	0.4200	0.4269	0.4378	0.4358	0.4247	0.4340	0.4188	0.4357	0.4499	0.4709
	GBP	0.2270	0.2289	0.2343	0.2325	0.2422	0.2412	0.2392	0.2275	0.2276	0.2238	0.2256	0.2278	0.2363
	JPY	32.87	33.01	32.20	31.72	31.97	31.26	31.70	31.96	32.19	31.90	31.97	31.97	31.59
	NZD	0.4363	0.4448	0.4538	0.4394	0.4461	0.4667	0.4699	0.4579	0.4577	0.4361	0.4509	0.4705	0.4841
4. Balance of Payments	Current Account													
	PGK (millions of kina)	1268.4	1591.5 p	-109.3 p	1963.3 p	1702.8 p	2381.8 p	2271.4 p	1657.6 p	1838.5 p	1255.7 p	na	na	na
	Capital & Financial Account													
	PGK (millions of kina)	-1606.1	-1475.1 p	-220.8 p	-1629.3 p	-2164.8 p	-2365.5 p	-2439.3 p	-1681.0 p	-807.4 p	-841.8 p	na	na	na
Overall Balance														
Foreign Exchange Reserve (eop, US\$ mill) (a)														
		2,080.3	2,061.0	1,989.3	2,045.7	1,992.2	1,966.0	1,946.3	1,940.5	2,210.1	2,338.1	2,171.03	2,143.0	2,056.3
5. Liquidity (eop)	Liquid Assets Margin to Deposit Ratio (%)	50.53	49.51	49.90	48.59	46.59	46.76	48.29	45.47	46.24	48.10	48.83	48.2	51.4
	Banks' Demand Deposits (K'bn)	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8	14.8
6. Money and Credit (YOY % Change)	Broad Money	-6.3	-5.3	-5.3	-3.7	-2.9	-2.1	-0.6	1.5	1.3	4.4	4.4	5.7	1.6
	Monetary Base	-1.2	-2.6	-4.7	-2.0	-4.7	7.7	9.1	-2.0	4.2	12.4	12.4	4.8	-1.3
	Private Sector Credit	5.9	6.3	3.7	2.4	3.6	2.2	2.6	2.4	6.1	4.0	4	9.7	-2.8
7. Interest Rates (% pa) (monthly weighted average) (b)	Kina Facility Rate	6.25	6.25	6.25	6.25	6.00	5.50	5.5	5.5	5.00	5.00	5.00	5.0	5.0
	Central Bank Bill (28 day)	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.39
	Commercial bank Term Deposit (30 day)	3.23	2.77	0.35	2.18	0.42	0.85	0.88	0.86	0.31	1.5	0.40	0.53	3.00
	Government Treasury Bill (364 day)	6.60	6.66	6.80	6.87	6.85	6.99	7.00	7.03	7.03	7.08	7.09	7.12	7.12
	3-year Inscribed stock Rate	-	-	-	8.06	8.00	8.04	7.99	7.90	7.90	-	-	-	-
	16-year Inscribed stock Rate (> 10 years)	12.58	13.58	14.58	15.58	16.58			8.39	8.39	8.39	8.39	8.4	8.4
	4-year Inscribed stock Rate	-	-	-	8.98	8.50	8.49	8.39	8.30	8.30	-	-	-	-
	7-year Inscribed stock Rate	-	-	-	9.94	9.86	9.84	9.69	9.57	9.57	-	-	-	-
	10-year Inscribed stock Rate	-	-	-	10.98	10.90	10.82	10.68	10.55	10.55	-	-	-	-
8. Commodity Prices (monthly average)(c)	Oil (\$/bbl)	63.8	68.6	66.8	59.8	61.5	57.7	60.0	57.3	60.4	63.4	61.6	53.3	32.2
	LNG (\$/mmbtu) (d)	11.3	10.3	10.2	10.0	10.1	10.9	10.1	10.0	10.1	10.1	9.9	9.9	9.9
	Gold (\$/troy oz)	1,300.4	1,286.1	1,283.5	1,359.0	1,413.9	1,508.0	1,512.6	1,494.9	1,468.1	1,477.2	1,557.9	1,597.1	1,589.8
	Copper (\$/mt)	6,444.3	6,447.5	6,043.8	5,868.0	5,939.2	5,694.7	5,745.9	5,742.4	5,862.5	6,063.4	6,057.3	5,685.9	5,218.2
	Nickel (\$/tonne)	13,051.3	12,840.0	12,005.6	11,967.3	13,516.5	15,848.0	17,673.3	17,117.2	15,117.6	13,808.7	13,592.1	12,739.5	11,931.7
	Cobalt (\$/tonne)	30,772.5	33,612.5	34,240.0	28,055.0	27,140.0	29,980.0	36,100.0	35,200.0	35,250.0	33,556.3	32,120.0	33,350.0	30,150.0
	Coffee (\$/tonne) (e)	2,866.0	2,866.0	2,821.9	3,031.3	3,121.7	2,976.2	3,003.8	2,954.2	3,273.8	3,616.8	3,341.7	3,225.5	3,542.2
	Cocoa (\$/tonne) (e)	2,200.1	2,329.2	2,319.1	2,409.3	2,411.0	2,174.5	2,300.0	2,435.1	2,524.1	2,442.6	2,584.3	2,718.9	2,350.1
	Palm Oil (\$/tonne)	589.0	575.0	552.3	540.0	529.8	523.0	523.0	523.0	523.0	523.0	523.0	667.4	873.0

Notes:

- p provisional.
- r revised.
- * end of period

Authorised for release by: **Loi M Bakani, CMG**
Governor